



CITY OF GLENDALE, CALIFORNIA  
Management Services Department  
INTERNAL AUDIT

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September 25, 2013

REPORT #: 2014-04

Steve Zurn, General Manager of GWP  
Glendale Water & Power

Dear Steve,

Enclosed is the final report of the State Department of Water Resources' Proposition 50 Grant Audit. Internal Audit would like to thank you and your staff for the support and assistance provided to us during the course of the audit.

Should you have any questions, please feel free to contact Jessie Zhang or myself.

Thank you,

A handwritten signature in cursive script that reads "Michele Flynn".

Michele Flynn,  
City Auditor

Enclosure

cc: Ramon Abueg, Chief Assistant General Manager  
Yasmin Beers, Assistant City Manager  
Dave Davis, Executive Analyst  
Robert Elliot, Director of Finance  
Lily Fang, Finance Administrator  
Leighton Fong, City Resource Specialist  
Donald Froelich, City Resource Specialist  
Scott Ochoa, City Manager  
City Council  
Audit Committee

REPORT #: [2014-04](#)

# **Proposition 50 Grant Audit**

**September 25, 2013**

## **Background**

In accordance with a request from Glendale Water & Power (GWP) management, Internal Audit completed an audit of GWP's Proposition 50 Grant claims to the State of California.

In November 2002, California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Bond Act of 2002 (Proposition 50), which authorized the State of California to sell \$3.44 billion in general obligation bonds and use the proceeds to provide funds for grants and loans to assist in meeting safe drinking water standards, acquisition, restoration, protection, and development of river parkways, and coastal watershed and wetland protection. The Department of Water Resources (DWR) is one of many state departments that administer Proposition 50 programs.

The City of Glendale has been receiving the Proposition 50 grant from the State to manage a major effort involving research, development, and construction of two test facilities to remove chromium 6 from contaminated ground water for the past ten years. The cost and technical feasibility data from this research will be used by the U.S. Environmental Protection Agency (EPA) and the California Department of Public Health (CDPH) to establish reasonable drinking water regulations for chromium 6 in drinking water supplies.

In order to ensure that the City's grant expenditures were in compliance with applicable laws, regulations, and grant requirements, the State completed an audit in September

2011 for the \$2.5 million awarded grant funds in the period from March 5, 2005 through June 30, 2010. The State auditor concluded that the City was in compliance with the applicable laws, regulations, and grant requirements and noted no findings or questioned costs. Two subsequent amendments to the initial funding agreement were issued by the State that brought the total project cost to a total of \$7.15 million. GWP was able to continue its effort in obtaining matching funds from various agencies. As of September 30, 2012, the last claim submitted to the State, the total cost incurred was \$7.14 million, of which the reimbursement received for City's own funds used on this project is about \$103k prior to June 2010. GWP has submitted a final amendment to the State in order to finish the additional research tasks requested by the State. The final cost for this Chromium 6 research project will be \$8.4 million and the project is scheduled to be completed by the end of 2013.

## **Objective and Scope**

The objective of this audit is to determine whether the City's grant expenditures were in compliance with grant requirements, specifically to ensure that grant revenues and all expenditures were appropriately recorded in the accounting system, adequately supported with required source documents and all claims were appropriately processed according to the provisions in the funding agreement, especially to meet the 100 percent matching requirement.

The scope of this audit is to review claims submitted to the State for the Proposition 50 grant reimbursement since the

grant was audited by the State auditors in July 2010. There were seven claims submitted between July 2010 and September 2012. In order to accomplish the audit objective, the following audit procedures were performed:

- Conducted inquiries about the Proposition 50 grant related information to obtain an understanding of the research project and various funding sources;
- Conducted inquiries on the reimbursement processes;
- Conducted analytical procedures to identify any discrepancies, trends, unusual transactions, unreasonable account balances, etc.;
- Performed detailed testing of claims submitted between July 1, 2012 and September 30, 2012 to ensure that the claims submitted were accurate and the amounts were appropriately supported and recorded in the City's PeopleSoft financial accounting system (GFS).

## **Summary of Results**

As a result of the audit procedures performed, the \$3.575 matching fund sources reported to the State were verified as "incurred Eligible Project Costs paid, or to be paid, with non-State funds" as required by the Funding Agreement. The total \$2.1 million claims submitted during the review period were appropriately supported by financial accounting system records and source documentation with the exception of overhead costs, which were calculated based on GWP's overhead rates. GWP Project management team demonstrated great effort to acquire matching funds from

six different agencies, and to manage the over \$7 million construction and research project with nine different entities under various contracts.

The audit identified five improvement opportunities related to improving the City's grant accounting procedures in the following areas:

- follow the City's Administrative Policy Manual (APM) on working with Finance to develop accounting procedures for each grant;
- conduct a periodic reconciliation to ensure that transactions are recorded in the GFS appropriately and to identify any recording errors in a timely manner;
- generate GFS reports appropriately to ensure the accuracy and completeness of the report information.

The audit also identified a total of \$40k in costs incurred by the City for managing this research project that were not yet submitted for reimbursement. Since the project is still on-going and the City is in the process of getting approval from the State for additional funding to complete the research, these under claimed amounts may be recoverable through the future claims to the State.

The detailed Observations, Risks, Recommendations and Management Responses are summarized on the following pages.

Item	Observation/Risk	Recommendation	Management Response
1.	<p>Detailed procedures to manage the grant related activities have not been developed or documented.</p> <p>According to the City's APM 3-18 Grant Accounting, "Upon receipt of the award letter or funding agreement, Finance will issue an accounting procedure." However, an accounting procedure was not developed or documented for this grant. Internal Audit found a "Grant Information Form" for this grant, which provided the initial grant related information. However the form was not updated with subsequent information, such as amendments to the grant agreement, additional projects, and other verbal agreement obtained from the State outside of the formal Funding Agreement.</p> <p style="text-align: center;">* * *</p> <p>Not documenting grant accounting procedures increases the risk of not providing appropriate oversight over the life of the grant and the inconsistency in operations in case of personnel turnover.</p>	<p>It is recommended that GWP project managers contact Finance to develop accounting procedures upon receiving future grants. The Grant Information Form should be utilized to document the accounting procedures, other decisions, discussions, etc. that are important for managing the grant.</p> <p>It is also recommended that GWP consider documenting the key procedures and verbal discussions with the State in terms of special accounting procedures (overhead cost allocation, capitalized interest allocation, etc.), allowable costs (indirect labor charges), matching fund administration, etc. for this grant in case of a potential audit by the State after the grant is closed out and the personnel are not available for inquiries due to retirement or employment separation.</p>	<p>GWP management agrees with the recommendations. The GWP Project Manager will be instructed to contact Finance to develop accounting procedures for future grant funded projects. The Project Manager will also update the Grant Information Form to document any critical discussion and agreement between the City and the State for this grant.</p> <p>The anticipated completion date is October 15, 2013.</p>

Item	Observation/Risk	Recommendation	Management Response
2.	<p>Reconciliations are not periodically conducted to detect recording errors in revenue received from various funding agencies. The following recording errors were noted:</p> <ul style="list-style-type: none"> <li>Three checks totaling \$693,956 from one match fund agency were booked to the Miscellaneous revenue account (38560-572) rather than the Proprietary Grants revenue account (38800-572) and Water Works Revenue fund designated for recording grant revenue;</li> <li>Two checks totaling \$431,122 from one match fund agency were booked to a Donations &amp; Contributions account (38500-573) and Water Depreciation Fund rather than the revenue account designed for recording grant revenue.</li> <li>Two checks totaling \$213,746 for non chromium 6 project related reimbursement from one agency were booked to the designated grant revenue account.</li> </ul> <p style="text-align: center;">* * *</p> <p>Not conducting periodic reconciliations between the financial accounting records and source documentation increases the risk of transactions not being accurately recorded, reported, or errors or fraudulent activities not being detected timely.</p>	<p>It is recommended that GWP work with Finance to ensure that reconciliations be conducted periodically to ensure that the revenues and grant-related expenditures are appropriately recorded in the GFS so that any recording error(s) can be identified in a timely manner.</p>	<p>GWP management agrees with the recommendation and has requested Finance to assist in conducting periodic reconciliations of grant revenue and expenditure accounts.</p>

Item	Observation/Risk	Recommendation	Management Response
3	<p>Timecards are not appropriately completed with both the employee's and the supervisor's signatures.</p> <p>It is GWP's policy to charge actual staff hours worked to related projects. All time cards are approved by the supervisor and are kept with Payroll. About six months ago, GWP employees started to use a self-developed online time keeping system for reporting their hours. Upon reviewing a sample of timecards, it was noted that the electronic timecards were not signed by either the employee or the supervisor on the face of the timecards, although the hours are entered by employees and approved by supervisors electronically online.</p> <p style="text-align: center;">* * *</p> <p>Not completing timecards appropriately increases the risk of not maintaining records that reasonably document all employee hours and costs charged to the project in an acceptable format by the State or other funding agencies.</p>	<p>It is recommended that Citywide timecards be used for personnel working on grants and that the signatures of both the employee and the supervisor are shown on the face of the timecards. Alternatively, GWP could improve the timekeeping process to ensure that the digital signatures are printed on the timecards or have the employees and supervisors sign on the print-out of the timecards.</p>	<p>GWP Management agrees with the recommendation and employees who work on grant funded projects will be instructed to use the Citywide timecards. Meanwhile, GWP will work on improving its electronic time keeping system to ensure the electronic timecards include the required signatures.</p>

Item	Observation/Risk	Recommendation	Management Response
4	<p>Project Detail reports from the City's GFS were not appropriately generated or included to support the expenditures in the claims.</p> <p>Upon conducting a detailed review of the claims submitted, it was noted that eligible expenditures were not claimed because the Project Detail reports were not complete. Upon investigation and inquiry, it was noted that the Project Engineer sometimes generated the Project Detail reports prior to Finance closing its books. As a result, overhead allocation and accrued expenditures were excluded from the claims because these are generally period end journal entries created by Finance. In addition, two incidents were noted where Project Detail reports were excluded on a project completely. The total under claimed amount in labor costs was \$22,879.</p> <p style="text-align: center;">* * *</p> <p>Not generating Project Detail reports appropriately increases the risk of incomplete reporting of expenditures incurred and therefore excluded from the reimbursement claims.</p>	<p>It is recommended that GWP work with Finance to ensure the accuracy and completeness of financial information reporting. This could be done through documenting instructions in the accounting procedures, or having Finance generate or review the reports and the claims before submission, which is the process stated in the current Grant Accounting APM 3-18, Section E.</p> <p>It is also recommended that GWP consider recovering these under claimed amounts through the final claim to the State.</p>	<p>GWP Management agrees with the recommendations and will work with Finance to ensure the accuracy and completeness of the claims. In addition, GWP will evaluate the under claimed expenditures and make a decision on how to best recover the costs.</p> <p>The anticipated implementation date is September 30, 2013.</p>



Item	Observation/Risk	Recommendation	Management Response
5	<p>Overhead costs were under claimed as a result of using the incorrect overhead rates in the overhead costs calculation.</p> <p>The overhead amounts in the claims were computed manually because certain chromium 6 study related projects were excluded from overhead allocation. The manual computation is based on the overhead rates provided by GWP Accounting on an annual basis. Upon detailed testing of the claims, it was noted that the overhead rates used in the computation were not always accurate. A total of \$18,983 in under claimed overhead was identified resulting from an inaccurately calculated overhead amount. Most of this amount resulted from using Fiscal Year 2012 overhead rates in the Fiscal Year 2013 first quarter labor costs claim.</p> <p style="text-align: center;">* * *</p> <p>Manually computing overhead costs increases the risk of human errors. In addition, not allocating overhead consistently increases the risk of over/under allocating overhead to other projects.</p>	<p>It is recommended that GWP work with Finance to determine the appropriate accounting for overhead costs. It is Internal Audit's opinion that the overhead costs should be allocated consistently amongst all projects. This will provide consistent support from the City's GFS.</p> <p>It is also recommended that GWP consider recovering these under claimed amounts through the final claim to the State.</p>	<p>GWP Management agrees with the recommendations and has discussed with Finance to ensure that all projects be consistently allocated with overhead charges. GWP Accounting will notify GFS support to include the previously excluded projects in overhead allocation process. In addition, GWP will evaluate the under claimed expenditures and make a decision on how to best recover the costs.</p> <p>The anticipated implementation date is September 30, 2013.</p>